

**CALIFORNIA DEPARTMENT OF WATER RESOURCES  
SUMMARY OF MATERIAL TERMS OF FINANCING  
DOCUMENTS**

(Submitted in connection with Section 7.10 of a proposed Rate Agreement between California Department of Water Resources and the California Public Utilities Commission<sup>1</sup>)

**I. MAXIMUM AMOUNT OF BONDS AUTHORIZED:** The Department will issue no more Bonds than it determines are necessary to repay advances from the General Fund and the Interim Loan, to fund the reserves and accounts as described below and to pay costs of issuance using all Bond proceeds and all Department Electric Power Fund balances available at the time of issuance of the Bonds; provided, however, the maximum aggregate principal amount of Bonds which will be issued will not exceed \$11,100,000,000.

**II. MATURITY OF BONDS:** The Bonds will be issued pursuant to a plan of finance which provides that the final maturity of the series of Bonds with the longest maturity will be no earlier than 19 years from the date of issuance of the first series of Bonds and no later than 21 years from the date of issuance of the first series of Bonds. Such plan of finance will provide that debt service payable on the Bonds will be substantially level, with principal payments commencing no later than 2004. Individual series of bonds issued pursuant to such plan of finance, or individual Bonds of any series, may mature prior to such final maturity date and have different amortization schedules. These maturity dates and amortization requirements do not apply to credit and liquidity facilities, interest rate swap agreements and similar arrangements ancillary to the Bonds.

**III. FLOW OF FUNDS:**

The Indenture will provide for the establishment of the following primary accounts within the Electric Power Fund:

- Operating Account
- Priority Contract Account
- Operating Reserve Account
- Bond Charge Collection Account
- Bond Charge Payment Account
- Debt Service Reserve Account

Power Charge revenues and Bond Charge revenues will be applied in the manner summarized below. Such revenues will be applied in the order of priority listed.<sup>2</sup>

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<sup>1</sup> Capitalized terms used but not defined in this Summary have the respective meanings given to those terms in the proposed Rate Agreement.

### **Power Charge Revenues**

Initially deposited in Operating Account. Amounts held in the Operating Account will be applied as follows:

1. Transfer to Priority Contract Account, by the fifth business day of each month, an amount such that balance held in that account is at least equal to the Priority Long Term Power Contract costs anticipated for the balance of the month and the first 5 business days of the next following month. If necessary, additional amounts will be transferred to Priority Contract Account as necessary to pay Priority Long Term Power Contract costs. Payment of Priority Long Term Power Contract costs is the sole use of this Account.
2. Pay other operating expenses, except those described in another paragraph.
3. Pay scheduled principal and interest on the Interim Loan, if and to the extent it remains outstanding.
4. Transfer to Bond Charge Collection Account to extent necessary to reimburse that Account for previous transfers from the Bond Charge Collection Account to (1) Priority Contract Account for payment of Priority Long Term Power Contract costs or (2) Operating Account for payment of Interim Loan.
  - 5a. Transfer to Bond Charge Payment Account, if there are insufficient moneys in the Bond Charge Payment Account to pay debt service.
  - 5b. Pay certain Department obligations to be secured on a parity with Bonds such as amounts due to credit or liquidity facility providers or providers of interest rate swaps (hereinafter referred to as "Parity Obligations"), if not paid from Bond Charge Payment Account.
  - 5c. Pay bond trustee and other fiduciary costs, if not paid from Bond Charge Payment Account.
- 6a. Replenish Debt Service Reserve Account, if required as result of the use of Bond Charge revenues for Priority Long Term Power Contract costs or Interim Loan, or a change in investment value.
- 6b. Fund and replenish reserves, if any, established for Parity Obligations.
7. Reimburse and pay interest on post-11/15/01 advances, if any, from General Fund if and to the extent they remain outstanding.
8. Reimburse and pay interest, in accordance with a schedule to be approved by the Commission, on pre-11/15/01 advances from General Fund if and to the extent they remain outstanding.

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<sup>2</sup> Where different uses are described with the same number followed by a letter, this indicates that revenues will be applied to such different uses on a parity basis.

9. Replenish Operating Reserve Account to its requirement.
10. Pay subordinated Department obligations such as certain amounts owed to interest rate swap counterparties in certain circumstances (hereinafter referred to as “Subordinated Obligations”) and related reserves if not paid from Bond Charge Payment Account, and subordinated indebtedness and related reserves, if any.
11. Pay other costs incurred by the Department under the Act.

### **Bond Charge Revenues**

Initially deposited in a Bond Charge Collection Account. Amounts in the Bond Charge Collection Account will be applied as follows:

1. Transfer to Priority Contract Account for Priority Long Term Power Contract costs, if not paid from Priority Contract Account, Operating Account or Operating Reserve Account.
2. Transfer to Operating Account for Interim Loan, if not paid from Operating Account or Operating Reserve Account.
- 3a. Transfer to Bond Charge Payment Account for monthly deposits to provide for Bond debt service three months prior to the date such debt service is due.
- 3b. Transfer to Bond Charge Payment Account for specified costs incidental to payment and security of Bonds (including credit and liquidity facility costs).
- 3c. Transfer to Bond Charge Payment Account for trustee and other fiduciary costs.
- 3d. After Department is no longer selling Power, pay Servicing Agreement costs, administrative costs, and certain other costs incurred by the Department under the Act.
- 4a. Replenish Debt Service Reserve Account, if not replenished from Operating Account.
- 4b. Fund and replenish reserves, if any, for Parity Obligations.
5. After Department is no longer selling Power, pay certain costs specified in Rate Agreement that previously had been paid from Power Charge revenues.

### **Debt Service Reserve Account**

1. Moneys in account used to satisfy any deficiency which arises in the Bond Charge Payment Account.
2. Debt Service Reserve Account to be replenished from Power Charge revenues if a deficiency therein results from use of Bond Charge revenues for Priority Long Term Power Contract costs or Interim Loan, or from change in investment value, and from

Bond Charges in other cases or if sufficient Power Charge revenues are not available for such purpose.

### **Operating Reserve Account**

1. Moneys in Operating Reserve Account will be used to satisfy any deficiency which arises in Operating Account. Such moneys to be applied in order of priority and for the purposes specified in 1 through 6 under Power Charge Revenues above. A portion of the Operating Reserve Account (the "Priority Contract Contingency Reserve Amount") will be reserved solely for the payment of Priority Long Term Power Contract costs as described below, as the last money in the Operating Reserve Account to be spent.
2. The Operating Reserve Account is to be replenished from Power Charge revenues, after reimbursement, in accordance with a schedule approved by the Commission, of amounts advanced from the General Fund if not previously repaid.

## **IV. SIZING OR METHODOLOGY FOR SIZING RESERVES, FUND BALANCES AND DEBT SERVICE COVERAGE; INITIAL DEPOSITS:**

### **Reserves, Fund Balances and Coverage**

1. Debt Service Reserve Account: A Debt Service Reserve Account requirement will be established in an amount equal to 50% of maximum aggregate annual debt service, determined based on combination of known debt service in the case of fixed rate bonds and assumed rates in the case of variable rate bonds. The size of such Debt Service Reserve Account requirement may be increased to an amount not greater than 100% of maximum aggregate annual debt service by the Department only if the Department has determined that such increase will not increase the Department's projected net debt service on the Bonds by more than 3.5% as compared to the Department's projected net debt service that would have otherwise been payable if the Debt Service Reserve Account requirement were established at 50% of maximum aggregate annual debt service, taking into account all dependent variables, including the respective ratings of the Bonds.
2. Operating Reserve Account: An Operating Reserve Account requirement will be calculated by the Department prior to the issuance of the first series of Bonds and at the beginning of each revenue requirement period including the Priority Contract Contingency Reserve Amount referred to below. Such requirement is to be equal to the largest aggregate difference between the Department's projected operating expenses and the Department's projected Power Charge revenues during any consecutive seven month period starting during the then current revenue requirement period, taking into account a range of possible future outcomes, but may be increased to an amount not to exceed \$1,200,000,000 at the time of issuance of the Bonds. The Priority Contract Contingency Reserve Amount is to be the maximum amount projected to be payable on Priority Long Term Power Contracts in any month during the then current revenue requirement period.
3. Operating Account: The Department will covenant to include in its revenue requirements amounts sufficient to cause a "Minimum Operating Expense Available

Balance" to be on deposit in the Operating Account by the first business day of each month. The Minimum Operating Expense Available Balance is to be calculated by the Department at the time of each determination of a revenue requirement and will be an amount equal to the largest projected difference between the Department's projected operating expenses and the Department's projected Power Charge revenues during any one month period during the then current revenue requirement period, taking into account a range of possible future outcomes.

4. Coverage: To provide for coverage of Bond Related Costs, the Department will be required to set aside in the Bond Charge Payment Account, 3 months prior to its payment date, an amount equal to estimated Bond Related Costs, based on assumptions and projections as appropriate, and to determine the Department's revenue requirements submitted to the Commission so that the amount in the Bond Charge Collection Account from time to time is equal to one month's estimated Bond Related Costs, based on assumptions and projections as appropriate. Such deposit requirements may be increased to cover a period of time not in excess of an aggregate of 6 months.

### **Initial Deposits**

Funds are anticipated to be deposited from Bond proceeds or Department balances, upon the issuance of the initial or subsequent series of Bonds, as summarized below.

1. To the Bond Charge Collection Account and Bond Charge Payment Account, amounts necessary to initially satisfy the requirements described in "Coverage" above.
2. To the Bond Charge Payment Account, an amount to fund debt service on Bonds and other Bond Related Costs between the time the Bonds are delivered and the time when the initial Bond Charges are fully in effect and being received in amounts adequate to fund ongoing debt service, only if such amounts are not expected to be available from Power Revenues.
3. To the Debt Service Reserve Account, an amount equal to the Debt Service Reserve Account requirement referred to above.
4. To the Operating Account, an amount equal to the Minimum Operating Expense Available Balance referred to above.
5. To the Operating Reserve Account, an amount equal to the Operating Reserve Account requirement referred to above, including the Priority Contract Contingency Reserve Amount referred to above.
6. To the Priority Contract Account, an amount equal to the maximum projected monthly amount due on Priority Long Term Power Contracts during the current revenue requirement period.